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SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1947

No. 576

STANDARD OIL COMPANY (NEW JERSEY), STANDARD OIL DEVELOPMENT COMPANY, STANDARD CATALYTIC COMPANY, AND JASCO, INCORPORATED,
Petitioners,

vs.

TOM C. CLARK, ATTORNEY GENERAL, AS SUCCESSOR TO THE ALIEN PROPERTY CUSTODIAN, SUBSTITUTED FOR JAMES E. MARKHAM, AS ALIEN PROPERTY CUSTODIAN,
Respondent

ON PETITION FOR WRIT OF CERTIORARI TO THE CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT

REPLY BRIEF FOR PETITIONERS

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After having obtained from Mr. Justice Jackson by order of February 6, 1948 an extension of time for the purpose, Tom C. Clark, Attorney General, as successor to the Alien Property Custodian, filed a so-called conditional cross-petition (No. 641, this Term) with respect to the petition of the

above-named petitioners filed February 6, 1948 seeking a review of the decision of the Second Circuit Court of Appeals herein on six questions. The practice of filing "conditional cross-petitions" seems to us an anomaly. While presenting issues which he asserts are worthy of the attention of this Court, the Attorney General offers to abandon them provided this Court will reject the issues urged by plaintiffs-petitioners. Either the Attorney General invokes the revisory jurisdiction of this Court, or he does not. Since by filing his petition he has done so, it is submitted that he has in effect consented to the granting of the writ prayed for.

Opinions Below, Jurisdiction, Statute Involved and Statement

These matters are covered in the above-entitled petition and brief filed February 6, 1948 (pp. 2-8 and 13).

Questions Presented

In the petition we stated six questions for review. In his cross-petition (No. 641, this Term), the Attorney General, as petitioner, has stated for review the propriety of a finding of fact concerning the sale by I. G. of 200 shares of S. I. G. stock, which finding was reviewed and approved by the Circuit Court of Appeals (Question No. 5 at p. 3 of cross-petition, No. 641, this Term).

Should the Court accept for review this finding of fact (which we think it should not), then we ask leave to add as further questions to be determined herein:

7. Was the conclusion of the District Court, approved by the Circuit Court of Appeals, that the sale by I. G. to petitioner Standard Oil Development Co. of five shares of Jasco stock was not a genuine transaction, clearly erroneous upon this record?

8. Was the conclusion of the District Court, approved by the Circuit Court of Appeals, that the Hague transactions were not genuine transactions but were accompanied by contrary unwritten agreements, clearly erroneous upon this record?

ARGUMENT

We here deal very briefly with the respondent's contentions (pp. 12-25) that the issues presented in the petition do not require review here.

1. The Conflict with the consent decree as to the Jasco shares.

a) Respondent contends that the court below "fully recognized" the binding force of the consent decree as *res judicata* (resp. br., pp. 13-14). While the court indeed acknowledged that principle (IV 1714), its decision so "misconceived the purpose and effect of certain provisions" (resp. br., p. 14) as to nullify the principle in effect.

b) Respondent contends that the agreed declaration of the consent decree as to the Jasco ownership is not binding because there is "no occasion" in an antitrust proceeding to establish property rights as between the parties. That, we submit, is idle speculation: the question is not whether it is generally appropriate to fix rights, but whether a decree in this form does so. Adherence to the "identifying label" theory of the court below is no answer to internal evidence showing that the declaration was intended to and did fix rights (see pp. 16-23 of our main brief).

c) Respondent contends that the consent decree in Articles VII and XII, which he describes as "parallel" (br., p. 15), negatives any intent to adjudicate the Custodian's ownership. Actually, no such parallel exists. Article VII was an explicit preservation and confirmation of Jersey's

then existing rights as acquired under the agreements declared illegal, despite the declaration of illegality and the injunction against further performance (Art. III) and despite the compulsory licensing requirements (Art. IV). By contrast Article XII, which deals with the Custodian's rights, saves only such of his property rights "*as may remain unaffected by the terms of this decree*" (III 1024)—language for which no parallel can be found in Article VII (III 1022).

d) Respondent contends that giving effect to the Jasco ownership declaration would constitute a "reward" in the form of "a gift of valuable property rights" to Jersey (br., p. 15). The argument is sheer sophistry. First, it assumes that I. G.'s ownership of the Jasco shares was a conceded fact at the date of the decree; second, it assumes that Jersey gave up nothing when it consented to the decree. Actually, Jersey has never conceded that I. G. owned the Jasco shares, and in any case had the right to assume that if there was any cloud on its title, that cloud was removed when Jersey consented to the loss of all *future rights* under its contracts with I. G. and to compulsory licensing of its patents (including the Jersey-originated patents), all as part of a negotiated compromise declaring *inter alia* that it was the sole owner of Jasco.

e) Finally, respondent attempts to repudiate the Custodian's signature on the consent decree by observing that neither the Custodian nor "his advisers" had an opportunity to unravel the Jasco transactions before signing it (resp. br., p. 16). But the Custodian's adviser was the Attorney General, who was his counsel in fact and whose advice, by force of statute, he was required to act upon. Actually, the Antitrust Division had the most comprehensive knowledge of these matters, as shown by the mass of docu-

ments from Jersey files spread on the minutes of the Truman and Bone Committees by Government counsel before the ink on the decree was dry. If respondent would have the Court infer that the decree was improvidently drawn, the antitrust court and not the Second Circuit was the proper forum in which to seek its modification.

Thus the conflict between the consent decree in the Third Circuit and the judgment directed by the Second Circuit is fundamental and rises above the specific subject-matter and requires resolution at the hands of this Court.

2. **Review of findings as to Jasco shares and the Hague Transactions.** The argument underlying Question No. 5 of the cross-petition in No. 641 is in reality this syllogism: the Hague transfer was not genuine; the S. I. G. transfer was like the Hague transfer; *ergo* the S. I. G. transfer was not genuine (cross-petition, p. 3). We did not in our petition propose review of the findings as to the genuineness of the Hague transfer because they present a question purely of fact. However, if respondent as cross-petitioner should secure a review of the minor premise, review of the major premise presented in Questions seven and eight above is clearly indicated.

3. **The Jersey-originated patents.** A conspicuous injustice in the decision below is the action of the court with respect to petitioners' own patents in certain fields, assigned to Jasco pursuant to the consent decree in reliance upon the declaration therein that the stock of Jasco belonged wholly to petitioners.

In response to our contention that the Circuit Court of Appeals violated proper appellate practice in making findings as to matters on which the trial court had exercised no jurisdiction, the respondent argues that "the issue of the petitioners' unclean hands *in respect of these patents*

was fully litigated . . ." (br., p. 18). The question-begging involved in the words italicized is apparent when it is realized (a) that these patents were not involved in the 1939 transactions to which the district court's findings related, (b) that the consent decree was entered in March 1942, two and a half years after the 1939 transactions and (c) that any determination of the 1939 transactions as sham (even if justified) is quite consistent with a firm belief by the petitioners in their validity at the time the consent decree was negotiated.

Manifestly, the question of sham in the 1939 transactions is not the same as that of fraud in the negotiation of the consent decree. Yet the court of appeals presumed to make its own findings on the latter question based solely on the conclusions relating to the former (IV 1722-3).

Respondent's statement that "the defense was urged" in the trial court (br., p. 18) merely begs the question because any inquiry as to the merits of that defense was barred *in limine* when the court declined to take jurisdiction.

These considerations show the importance of the petitioners having their day in court upon the merits of the defense.

In this aspect, the case involves not only the manifest injustice of the action of the Circuit Court of Appeals, but also the important and novel question whether the Custodian can as a matter of law justify the retention of property neither enemy-owned nor vested as such, on considerations of "equity and good conscience" (IV 1722). The privilege of such a defense would inevitably effect an expansion of the Custodian's power to seize and retain far beyond the intended purpose of weakening the enemy. Such questions cast doubt upon the claims of Government counsel (usual in opposition) that the legal issues herein are "unique" and "of no general importance" (resp. br., p. 20).

4. The S. I. G. Patents.

The brief in opposition discusses two contentions.

The first contention—that the petitioners should pay to the Custodian the amounts that they were obligated to pay to I. G. under the Four-Party Agreement—is untenable for two reasons:

(a) It presents a diametrical conflict with Section III of the judgment of the antitrust court declaring the Four-Party Agreement and other agreements unlawful and explicitly enjoining the petitioners "from the further performance of *any* of their provisions" (III 1010-1, italics ours). The payments in question are payments in performance of the Four-Party Agreement. The very words of the court's decision so characterize them (IV 1718). So dia metrical a conflict between decisions of inferior federal courts plainly presents a proper question for review by this Court.

(b) It ignores the sound doctrine, elsewhere asserted by the Custodian (see pages 11-12 of his cross-petition in No. 641), that—

> "This Court has repeatedly declared that . . . rights to receive royalties under patents are merely contractual and not proprietary interests."

The doctrine is dispositive of the instant question. For if the Custodian's right to receive the payments in question is merely contractual and not proprietary, it could not possibly survive the declaration of illegality of the contract itself.

Elsewhere (p. 9 of his brief) the Custodian argues that the antitrust decree left unaffected the "property rights" of the Custodian. Since his right to receive royalties was not a property right, it was cut off by the antitrust decree. The contrary decision of the court below presents a mani-

fest conflict with the antitrust decree calling for the interposition of this Court.

Respondent's second contention—that the petitioner S. I. G. is not entitled to the return of the titles to the Class A patents and exclusive licenses under the Class B patents—is likewise untenable.

(a) As to the titles, the very decision which the Custodian cites to support his argument, denies it. In *Waterman* v. *Mackenzie* (1891) 138 U. S. 252, 261 (cited by respondent at page 23 of his brief and pages 11 and 12 of his cross-petition), this Court held that an assignment of a patent conveys the entire title and the sole right to sue for infringement even though the assignment was subject to an earlier exclusive license to a third party which deprived the assignee of the right either to manufacture or to sell the patented article. See also the cases cited in footnote on page 35 in petitioners' supporting brief.

The decision below is in direct conflict with these decisions.

(b) As to the "exclusive licenses and licensing rights," respondent argues that they were "contractual rights," cut off by the consent decree. But, as we have shown, Article VII of that decree (III 1022) expressly preserved to the petitioners all of their right, title and interest "in or to or under any presently existing patents, licenses under such patents . . ." etc., despite the holding of illegality of the agreements under which the rights and licenses were granted. This contrasts sharply with the provisions of Article XII, which preserves to the Custodian only his "property rights," and then only such as remained unaffected by that decree.

In his cross-petition (page 13), the Custodian submits to the Court that the nature of "the interest acquired by S. I. G. in the S. I. G. patents" presents "an issue of general

importance in the patent law." His assertion in the brief (page 24) that the issue "presents no conflict of decisions, and does not warrant further review" is therefore hardly convincing.

CONCLUSION

The writ prayed for in No. 576 should be granted in full, and should include Questions 7 and 8 on page 2 above if Question 5 in No. 641 is accepted for review.

Respectfully submitted,

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New York, N. Y.
March 23, 1948.